

April 12, 2001

HONORABLE CITY COUNCIL:

Before I present my proposed Budget for the 2001-2002 fiscal year, I would like to read a memo prepared at my request by the Budget Director and sent to the Department heads outlining steps that are to be taken to ensure the current fiscal health of the City of Detroit. (See Exhibit A).

It is clear from this memo to the operating and staff agencies that there are serious economic events taking place that will continue to challenge the City's efforts to finish the fiscal year with a "dollar" in the bank -- that is, a balanced budget. However, I am confident that the City will overcome these challenges. Therefore, I am officially projecting a surplus of \$1 on June 30, 2001.

It is interesting to look back just over a year ago. Your Honorable Body will recall that the Standard & Poor's 500 Index and the NASDAQ Composite Stock Index both reached their highest market valuations, breaking all previous "bull market" records. The economy was growing at a near-record annual rate of 6% with little or no inflation. Consumer confidence was at an all-time high, while national, state and local unemployment was at an all-time low. In short, we recently experienced a very upbeat time for the City as well as the nation. That positive economic situation contributed to five consecutive fiscal years of surpluses for the City, and lead us to expect a sixth consecutive year as of June 30th. Ladies and Gentlemen, the last time the City of Detroit achieved such a record was 1950.

Despite the current slowdown in the economy outlined in the memo to my directors, the City and its citizens continue to enjoy the benefits of economic growth throughout Detroit: the construction of new apartments and houses and the opening of new industrial plants, offices and stores have added jobs and economic opportunity to nearly every neighborhood. Take a drive on John R., Brush or St. Antoine, north of downtown and just east of our Cultural Center, and you'll see several great examples of new housing starts in the City. I recently attended ribbon-cuttings for an African American-owned Blimpies sandwich franchise in our Empowerment Zone, and the new Phoenix Movie Theater -- a 10-screen redevelopment of the former Bel-Air Theater on Eight Mile Road. Meanwhile, Integrated Packaging Corporation, a \$75 million African-American packaging firm, recently purchased the Laimbeer Packaging plant on Detroit's east side.

Yet, while an impressive volume of rebuilding continues, we must observe caution and be fiscally conservative as a government, due to the ongoing reduction in the City's income tax rates, the freeze in state revenue sharing dollars, and the uncertainty of the future direction of the national, state and local economies. These factors will challenge the City's ability to meet our

Core Service Priorities of neighborhood stabilization, improved public safety services, and improvements to the support service departments of City government.

Before I proceed to the financial highlights and specific programs of my proposed budget, please allow me to discuss four important matters.

### **The 2000 Census**

As you are aware, the 2000 census total for the City of Detroit is presently recorded at 951,270 residents. The good news in these figures is that the rate of decline for the last 10 years was 7.5%, while in 1990, the rate of decline was 14.6%. In 1980, Detroit experienced a 20.5% drop in population from the 1970 census. It is our hope, given the increased residential building taking place in our City, that this decade will see the City actually experience an increase in its population.

I would like to take a moment to personally thank this Honorable Body for your support of our Detroit Census 2000 campaign. I also want to thank the thousands of volunteers for their assistance with the City's efforts to help get the most complete and accurate count possible. Nevertheless, there was a nationwide undercount in excess of 3 million people, the overwhelming majority of whom are people of color. Our efforts to make the census process work for Detroit will not end with last year's count. As Mayor of Detroit, and in my capacity as President of the National League of Cities, I am now urging the U.S. Commerce Department to utilize census sampling as it calculates the appropriate amount of funding for federal entitlement programs and grants. The census sampling method is the best way to make sure programs funded by our taxes reach our people who are in most need of help.

### **A Vision Statement for 2002-2010**

Last fall, as promised in my 2000 State of the City address, I organized a series of "visioning" meetings with a cross-section of our citizens, ranging from our young people to our seniors, and including representatives from business, labor, religion, community organizations and the media. The purpose of these meetings was to get a sense of the citizens' view of the City as it is today, as well as a sense of the challenges facing the City in the future. Yesterday my office released a report that combines what Detroiters said in those visioning meetings with the accomplishments of the past seven years and an overview of Detroit's current opportunities and challenges. The report is entitled "Detroit: Building on a Solid Foundation / A Community Vision for 2002-2010." It has been made available to this Honorable Body, the media, and -- through my office and our Neighborhood City Hall offices -- to any citizen who would like a copy.

### **Launching The Big CleanUp**

While many issues were discussed in those visioning meetings, one clear and consistent theme was that the City is too dirty -- there is too much litter on our streets, and too many illegal dumping sites and abandoned vehicles in our neighborhoods. Citizens who had complaints did not blame City employees whose job it is to clean the City, and they applauded those who

volunteer for Clean Sweep each year. Their complaints were over illegal dumping and our own citizens throwing their trash out of cars and around our neighborhoods. Session participants also noted that all of us need to take responsibility to clean up our neighborhoods and keep them clean. I listened and I left those meetings committed to addressing a clear and present need of the citizens, and businesses of this great City.

Therefore, we are engaged this year in The Big CleanUp -- a citywide effort to clean the City of Detroit -- in ways that reach beyond the normal duties of either our Department of Public Works or our Recreation Department. The City will work with businesses, schools, churches, neighborhood organizations, and individuals -- coordinating their efforts with several City Departments: Recreation, Fire, Police, Resource Recovery, DPW, DDOT, Water & Sewerage, PLD, Neighborhood City Halls and the Communications and Creative Services Department. Please allow me to briefly list the activities planned for The Big CleanUp.

- We will install 1,000 new trash receptacles at key intersections and streets with high pedestrian traffic.
- We will place 5,000 trash receptacles in City parks, including Belle Isle.
- The Detroit Police Department will continue to make aggressive efforts to remove abandoned cars from our City's streets.
- We will make a major effort to clean the entrance and exit ramps to the City's freeways.
- We will lease or borrow heavy equipment from local businesses or other government agencies to remove illegal dump sites throughout the City.
- The City will periodically perform street sweeping of neighborhood streets.
- During Clean Sweep Week and afterward, volunteers will remove litter and debris from our streets, parks, and areas around schools, businesses and places of worship.
- The media will participate in public service campaigns urging our citizens to join in our efforts to clean up Detroit and keep our city clean.

Many elements of The Big CleanUp campaign have already begun and will take us through Clean Sweep Week, which is April 23-28. The Big CleanUp activities will continue through the end of the next fiscal year: June 30, 2002.

#### **An Advisory Vote Regarding Belle Isle**

Finally, I would like to emphasize once again the need to ensure that one of America's most magnificent parks -- Belle Isle -- receives the financial resources it needs to complete necessary and desired improvements and the kind of regular maintenance it deserves. The Belle Isle Master Plan, presented March 9, 2001, to this Honorable Body, proposes to spend \$200 million for improvements over a 15-year period. As you know, the City does not have the financial resources within the General Fund or within the existing bonding capacity to fully implement the Belle Isle Master Plan. Moreover, the infusion of additional funds available from permanent casinos for quality of life issues will not kick in until 2004 or 2005, even if you act upon the proposal before you.

As we look for alternatives to finance these proposed improvements, I am compelled to return to the concept of a very modest annual toll for vehicle entry onto the island. I recognize and respect the differences of opinion around the table with respect to the vehicle toll as a funding source. However, this matter is of such great importance, I request that the citizens of Detroit be given the opportunity to express their approval or disapproval of a Belle Isle vehicle toll, in a November 2001 advisory ballot issue. I will -- and I hope this Honorable Body will -- be guided by the results of an advisory vote by our citizens.

I would now like to turn your attention to the Financial Highlights of the proposed 2001-2002 budget.

### **FINANCIAL HIGHLIGHTS**

As I mentioned earlier, the biggest challenge affecting the City's budget this fiscal year and next is the economy. No one knows for certain whether it will grow or whether it will contract, and no one knows by how much in either case. There is no perfect crystal ball to provide us direction. The efforts of the three economists who conferred with our Budget Director have given us a sense that the economy may begin to grow marginally in the last half of this current calendar year. However, the economic reality for the City is that when the economy declines nationally, the City generally starts the decline sooner, and the rate of our decline is greater. More importantly, the City typically takes longer to recover than does the national economy.

In that regard, the revenue source most sensitive to those economic changes is the City income tax. This tax is also the City's largest revenue source. We feel the effects when people are laid off or do not have the opportunity to work overtime on their jobs. Besides the economic downturn, another challenge to our income tax revenue is a State mandate to reduce, over a 10-year period, the personal income tax rate by 1% for residents and ½% for non-residents. By 2009, the individual tax rate in Detroit will be 2% for residents and 1% for nonresidents. We have also made a voluntary commitment to eliminate Detroit's corporate income tax during this decade, with the expectation that greater business investment will produce a net increase in tax revenue, by creating jobs and attracting new residents.

Currently, the Budget Department estimates that the City will collect \$375.8 million, a revenue shortfall of approximately \$12 million in income tax collections for this current fiscal year from the budgeted amount of \$387.4 million. We are projecting income tax collections for the next fiscal year at \$384.8 million. Economic reality compels us to make the necessary adjustments, reflecting the slowdown in the economy, to this year's budget and the 2002 fiscal year budget.

The projected increase in tax collections next year is fairly optimistic, given the uncertainty as to where the economy is headed. But the record shows that we Detroiters tend to show our optimism -- or maybe just our toughness -- at budgeting time.

As I leave this issue for your thoughts and consideration, it should be noted that the State of Michigan is experiencing similar reductions in its income collection efforts. As a result, the State has also lowered its revenue projections.

Detroit's overall budget for fiscal 2001-2002 has grown to slightly more than \$3.37 billion. That represents a 21% increase over the current fiscal year budget. The majority of the increase comes from major cost increases for Water & Sewerage, and DDOT, the two largest Enterprise Fund Departments. Water has a proposed \$360 million bond sale in next year's budget, in addition to increases in its Water and Sewerage divisions, in the total amount of \$57 million. The General Fund will increase a modest 6%, up to a projected amount of one billion four hundred ninety-eight million dollars (\$1,498,000,000).

I am happy to report that revenue from casinos for this fiscal year has been better than our original expectations. We had estimated collections of \$80.7 million. We now project collecting \$85.6 million in tax revenue from casinos for fiscal 2000-2001. With that in mind, we are projecting for fiscal 2001-2002, tax revenue totaling \$94.3 million from casinos. I feel confident about this number. We have worked closely with our consultants on this amount, and while we are happy with the projected increase, we do not fully know and understand the full extent of the economic downturn and its potential impact on casino revenues. Finally, I would like to caution this Honorable Body and the citizens of Detroit about possibly unrealistic expectations for casino revenue and how that money might be used by the City. This year, the increase in casino revenue is more than offset by a decline in projected income tax collections for this year.

On a further positive note, I am pleased to report that the property values in our City have again risen for the third consecutive year, by more than \$1 billion. This means that in the last three years, the market value of property in the City has grown by more than \$6 billion -- an amount greater than one-quarter of our total market value of nearly \$22 billion.

On June 30, 2001, our contracts with the City's labor unions will expire. Contract negotiations are currently underway. Because of the tremendous uncertainty about the economy and its future direction, I urge our unions to exercise fiscal restraint as they present their contract issues. I am confident that our City negotiations will be a productive and mutually beneficial experience for City government and our unions.

I respect and applaud our employees and the service they provide to the citizens of this City. I also acknowledge that one measure of that appreciation is in the form of compensation. Accordingly, we have set funds aside to acknowledge our appreciation, when contract negotiations have been completed. I sincerely wish that it could be more, but economic realities dictate otherwise. I look forward to a fruitful and positive labor agreement process.

It will take the efforts of both City Council and my administration to ensure that we successfully navigate the waters of our current economic uncertainties. We all want to end up with a budget

that addresses the many needs of our citizens and yet recognizes the economic realities of our limited revenue sources. To help facilitate this cooperation, I have instructed both the Directors of Budget and Finance to work closely with your Fiscal Analyst and to share with him and his staff all reports and all information used in preparing this year's budget. We want to ensure that all parties to the budget process will have the same level of accurate and relevant financial information in order to make the best financial decisions on behalf of our citizens.

On a related matter, in January of this year, your Honorable Body prepared a set of "Council Budgetary and Public Policy Priorities" for Fiscal Year 2001-2002. This information was sent to us by way of your Fiscal Analyst. The listing included a number of items that directly addressed the City's Core Service Priorities. It was unfortunate that greater detail was not provided. It was also disappointing that when time was set aside to meet and discuss your priorities with the Budget staff and myself, no one from City Council appeared. However, I instructed the Budget staff -- to the extent possible financially, and where they clearly understood your requests, to reflect them in my budget presentation.

#### **DEPARTMENT, AGENCY AND CORE SERVICE HIGHLIGHTS**

Agency budgets were developed using Goal Based Governance and the strategic needs of our City. For 2001-02, the focus continues to be on strengthening the delivery and management of core services, through three Core Service Priorities:

- Neighborhood stabilization
- Public safety
- Internal support services

Two of the City's Core Service Priorities highlight service to the citizens and businesses in the City's neighborhoods. A critical factor in those efforts is the City's ability to have modern, up-to-date vehicles and equipment. In the past, given the financial constraints, our equipment was at best inadequate, due to age, and at times improperly maintained. We are committed to providing to our dedicated employees modern equipment, in order to meet the needs and demands of the residents and businesses of the City.

#### **New Vehicles and Fleet Management**

To this end, I am recommending four additional positions for the Department of Public Works, and funding for the lease financing of General Fund vehicle acquisitions. These positions will work to increase our control over the spiraling costs of operating the City fleet. A Steering Committee, consisting of a new Fleet Manager and staff from Budget, Finance, and the Mayor's Office will set and oversee new citywide vehicle policies relative to the acquisition, assignment and operation of the fleet. Lease financing will stabilize the vehicle replacement cycle by smoothing out the costs associated with this \$280 million asset. These changes will produce better written specifications for new vehicles, improved parts procurement and manufacturer follow-up, and the timely replacement of high mileage and high maintenance vehicles. I am confident that the net effect will be a decrease in operating costs and out-of-service times, ultimately increasing the performance of every City service that relies on vehicles.

I would like to take a moment and note some of the more significant acquisitions of vehicles through the proposed leasing program:

- **DPW**

|                     |             |
|---------------------|-------------|
| 20 Courville Trucks | \$3,080,000 |
| 10 Rear Load Trucks | \$1,450,000 |
| 16 Pickup Trucks    | \$253,000   |
  
- **FIRE**

|                   |             |
|-------------------|-------------|
| 9 Aerial Ladders  | \$4,050,000 |
| 5 Pumping Engines | \$1,500,000 |
| 16 EMS Ambulances | \$1,140,000 |
| 4 Rescue Trucks   | \$800,000   |
  
- **POLICE**

|               |             |
|---------------|-------------|
| 61 Scout Cars | \$1,650,000 |
| 100 Scooters  | \$655,300   |
  
- **RECREATION**

|                |           |
|----------------|-----------|
| 4 Aerial Lifts | \$332,000 |
| 4 Log Haulers  | \$340,000 |

In addition to the above acquisitions, we have plans to acquire vehicles for several other General Fund Departments, including Public Lighting, City Clerk, Consumer Affairs, Health, Historical and the Detroit Zoo. We have also set aside funds for the acquisition of additional vehicles that are assigned to individual elected officials, City employees and appointees.

### **The Big CleanUp**

As I noted earlier, the Big CleanUp is in progress. I have committed \$6 million in the proposed budget to fund additional clean-up activities throughout the City. The bulk of these funds will be used to remove debris from vacant lots and alleys, including the cost to haul and place the debris in the proper land fill. It would be helpful to coordinate any alley closings with alley cleanup, so that we will not make sites readily available for illegal dumpers.

It is unfortunate that we must commit such resources to essentially clean up behind property owners, businesses and illegal dumpers -- who are often from outside the City. Just think what positive activities the City could be engaged in with \$6 million. Nonetheless, we will work hard to keep our City clean, and continue in our efforts to encourage individuals and businesses to legally dispose of debris. At the same time, we will vigorously protect our environment by enforcing the anti-litter and anti-dumping laws of the City and State.

### **Demolition of Dangerous Buildings**

Abandoned and dangerous buildings continue to challenge the City of Detroit. I have allocated \$12.5 million in the upcoming budget for demolition activities. Since 1994, the City has spent \$104.8 million and torn down 16,658 structures, primarily houses in neighborhoods. Fifty million dollars of the money for demolition was borrowed from Block Grant funds. Again, it is unfortunate that the City is saddled with the responsibility of tearing down a residential or a commercial building when an individual abandons his or her property and ignores an owner's responsibility for maintaining the structure. The result is that the City and our citizens must spend precious General Funds or Block Grant dollars to remove the structure. I hope that in this decade, as the population stabilizes and increases, the City will then be able to reduce the funds we must now commit to this process.

### **Detroit Department of Transportation**

Public transportation is a key service and continues to be a high priority in this administration. Recently, DDOT, through the joint efforts of your Honorable Body and my administration, was awarded a federal grant that will provide funding for the purchase and installation of radios and automatic vehicle locators. This will allow for better management of our fleet, and -- in emergencies -- the ability to communicate with the driver. Continuing in our efforts to improve transportation services to our citizens, I am adding 53 buses to an earlier order of 100 new buses, which are being delivered this spring.

### **Recreation Department**

A new reorganization plan at the Recreation Department that will create a district system will move the operations closer to the point of customer contact. This structure will provide the department with a direct link between neighborhoods and their needs, along with greater managerial control at no additional increase in net tax cost. In addition, continuing this administration's efforts to expand and upgrade existing recreational facilities, I am recommending the sale of another \$3 million in bonds for parks and recreation facilities, as well as \$124,000 for the reopening of the Camp Brighton.

### **Public Lighting Department**

Last summer's power demands challenged Public Lighting's ability to provide reliable power to its customers. We have made sufficient improvements to the current system such that we will avoid a similar problem this summer. I am recommending another \$6.3 million in the City's efforts to improve reliability and efficiency by upgrading generation capabilities at the Mistersky Power Plant and installing two new electrical interconnections (tie lines) that will increase transmission capacity.



### **Water and Sewerage Department**

In our efforts to meet federal mandates, the Water & Sewerage Department will issue \$360 million of Revenue Bonds in fiscal 2001-2002. A portion of the funds will be used for major rehabilitation of the Wastewater Treatment Plant. Approximately \$25 million of bonds will go towards infrastructure replacement and improvement. This investment is a significant increase over previous years, reflecting greater development activity now underway in our City. The balance of bond proceeds will focus on combined sewer overflow facilities.

### **Police Department**

I recently toured Police Headquarters at 1300 Beaubien. There is a fundamental problem of trying to meet the needs of modern, 21st century police operations with a building built in the early 1900s. The men and women of our fine Police Department need a modern, up-to-date facility in order for them to meet our citizens' expectations for reliable, timely service. To this end, I have included funds to initiate a feasibility study for the design and construction of a new modern police headquarters.

In addition, \$1.5 million has been added to Fire and Police budgets for the construction of the Public Safety Mall in Southwest Detroit.

### **Health Department**

Fourteen new positions have been added to the Health Department in its continuing efforts to obtain accreditation from the State of Michigan Department of Community Health. Last year the State, citing a need to assure and enhance the quality of local public health, began to require each local health department in Michigan to become state accredited and meet particular standards in order to do so. The Detroit Health Department must be vigilant as it proceeds through the accreditation process, or it will jeopardize hard-won funding and its time-honored status as a leading local health department.

### **Detroit Resources Management System**

The City of Detroit's internal support services departments provide critical support to our operating departments. If we do not provide training, needed equipment and other resources, they will not be equipped to meet the needs of the operating departments. One of most serious challenges in that regard is the Human Resources-Payroll component. The current payroll system is well over 20 years old, and it is not able to properly manage the City's payroll needs. Now that the DRMS' financial module is functioning properly and people have a greater understanding of its capabilities, I am proposing that we begin the process of implementing the Human Resources module of DRMS. The initial funding of \$6.2 million will allow the City to conduct an assessment of the current system. Then, using Oracle's Human Resource/Payroll module, a system can be designed that meets the City's requirements. At that point, the City will explore how and who will conduct the actual implementation, and at what cost.

In addition, I am proposing \$4.2 million to implement the DRMS fixed asset module, in order to maintain compliance with the Government Accounting Standards Board requirements regarding reporting on Fixed Assets. The City must maintain its “clean” or unqualified opinion regarding its financial statements, and to do so, we must move forward with this implementation.

We embarked on our critical mission to upgrade the City’s computer-related hardware and software several years ago. In many cases, the City had not addressed the record-keeping, data processing and communications needs of certain departments and agencies for many years. The result was a difficult and painful learning curve, as our employees were introduced to DRMS and trained to work effectively with the new hardware and software. To avoid this problem in the future, the City will continue to upgrade its software and hardware to ensure that we stay current with relevant technology. We will likewise upgrade the technical skills of our workers. To that end, I recommend \$2.5 million to begin a replacement schedule for standard computer equipment throughout the City.

#### **Real Estate Leases**

In years past, due to increases in staff and supporting equipment, City Departments have entered into a number of long-term space leases. The City must, as leases begin to expire, secure the best possible leases in terms of space and funds expended. I am, therefore, adding three positions to the Finance Department. Their duties will include proposing, reviewing and monitoring all space leases. It is my belief that the modest cost of these positions will be more than justified by the savings the City will receive.

#### **Elections Funding; Detroit Zoo**

In addition to the items I have mentioned, I would like to draw your attention to two other important items in the 2001-2002 budget. One is \$1 million set aside to cover the fall 2001 municipal elections. Through the efforts of the City Clerk, the Elections Director and the Elections Commission, the City has experienced excellent election results. I want to support and continue their efforts to ensure a trouble-free election process.

The second issue involves the Detroit Zoo. The zoo is one of the most widely visited places in the State of Michigan, and one of the most popular and highly regarded zoos in America. This summer, two new exhibits will be opened -- the National Amphibian Conservation Center and the Arctic Ring of Life. To accommodate the additional attendance these new attractions will bring, and to keep the quality of our zoo at a high level, I am recommending five new positions. I look forward to another successful season at the Zoo.

Honorable City Council  
April 12, 2001  
Page xi

### **CONCLUSION**

Thank you for the opportunity to come before you and speak to the financial challenges and opportunities facing the City. Unlike previous years under my administration, we have some economic unknowns facing the city. However, if we are realistic and open to dialogue, we can exercise the financial discipline needed to meet those challenges. We must keep our focus on the hard work and high standards needed to make this government one that delivers critical, timely, efficient, and reasonable services to our citizens. At the end of the day, Detroit City government has only one true purpose: to offer the citizens of Detroit the best possible service.

Honorable City Council Members, I submit my proposed 2001-2002 budget for your consideration and approval.

Respectfully submitted,

Dennis W. Archer  
Mayor